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TAGS: [ECON](#) [EINV](#) [ETRD](#) [PREL](#) [PGOV](#) [RS](#)
SUBJECT: TFGG01: PRESIDENTIAL ASSISTANT SIGNALS NEW,
NEGATIVE TACK ON WTO ACCESSION

Classified By: CDA Eric S. Rubin for Reasons 1.5 (b) and (d).

Summary

¶1. (C) In an August 13 meeting with the Charge, Presidential Assistant Arkadiy Dvorkovich signaled that the GOR anticipated being denied WTO accession this year and was looking to cast blame on the U.S. and others for politicizing the process. He warned that Russia would take steps to protect domestic industries if accession failed and would question the institution's legitimacy, especially in the wake of the Doha round failure. At the same time, Dvorkovich acknowledged that a modern, competitive economy -- Russia's goal -- needed to be an open economy. End Summary.

WTO: Blaming Others

¶2. (C) Dvorkovich agreed that economic ties between the U.S. and Russia had been improving but noted that their potential exceeded their reality. WTO accession for Russia would have been a step toward realizing that potential. Russia had hoped for WTO accession this year. However, Georgia had already been blocking formal negotiations and the prospects for accession seemed increasingly remote. In addition, other issues were being raised that were "political" in nature and that would seem to indicate a conscious decision on the part of some countries to block accession. International integration, including WTO accession, was still important to Russia, but not at any price.

¶3. (C) In response to a question about how to preserve the gains and momentum of this year, Dvorkovich responded that Russia was not prepared to pretend that "everything was fine." If it failed to accede this year, Russia would almost certainly take unilateral steps to protect its domestic industries. Moreover, the prospects for eventual accession would dim significantly. There were forces within Russia opposed to WTO accession. These opponents would feel vindicated by failure and would oppose future negotiations. Asking rhetorically who should want Russia's WTO accession more, Dvorkovich implied that it should be the international community. He said Russia's failure to accede, coming on the heels of the Doha round's failure, would undermine the legitimacy of the WTO.

Modernization Still a Priority

¶4. (C) Dvorkovich did acknowledge, however, that Russia needed to open its economy in order to modernize it and make

it more competitive. The economy was on a good trajectory, growing fast and accumulating potential for future growth. However, modernization was critical to the country's future and there was much still to be done. With inflation for instance, the GOR's answer was to stimulate a supply response to the increased domestic demand driving prices up. Dvorkovich admitted that it would take 3-5 years to address the infrastructure bottlenecks preventing that supply response but said that in the interval the government would lower inflation by restricting the money supply, through aggressive efforts to break up "monopolistic" pricing blocks (i.e. Mechel), and by limiting "imported" inflation.

¶6. (C) Dvorkovich said the GOR was also moving to modernize the economy by removing bureaucratic impediments. Anti-corruption legislation would be passed this fall, which would reduce costs, especially for small and medium size enterprises. SMEs were roughly 20 percent of the economy, which was far below Western levels. Anti-corruption efforts would stimulate the sector. The CDA noted past U.S. experience in this field and offered assistance. Dvorkovich said the anti-corruption legislation, which was due August 25, was being drafted by the Ministry of Economic Development (MED) and the Anti-Monopoly Service and recommended working with those institutions.

¶7. (C) Dvorkovich said that a third area where the government was working to modernize the economy and stimulate growth was tax policy. Tax revenue was rising faster than incomes, a sign that tax compliance was increasing and the informal economy shrinking. The GOR needed to reduce the tax burden, especially on businesses to encourage faster growth. VAT rates, in particular, were too high. A reduction would

return profit margins to were they had been a year ago, before tax compliance had begun to improve.

Comment

¶8. (C) Dvorkovich was clearly implying that U.S-Russian negotiations over the commercial behavior of state-owned enterprises fall into the category of "political" objections to WTO membership. Although the GOR's negotiators have been appreciative of U.S. support and far more critical of the EU, we would guess that the GOR will spin this differently in public, fingering us as the main reason Russia is denied membership. We will look at this issue more closely in a septel, but Dvorkovich is probably right that it will be a long while before Russian accession is this close again.

RUBIN